UNIVERSITY OF JOHANNESBURG

Department of Commercial Accounting

FINANCIAL PLANNING AND CONTROL 3B
BFA44B4

LAST ASSESSMENT OPPORTUNITY

7 November 2015

Time: 3 hours **Marks: 100**

Assessor: MR K DALY
Internal Moderator: MS M JANSE VAN RENSBURG
External Moderator: MR J DE BEER

INSTRUCTIONS:
This paper consists of 5 pages including the cover page.

- **Answer all questions**
- Show all calculations, workings and reasoning clearly
- Silent, non-programmable calculators may be used

Question	Topic	Marks	Time
1	Functional Budgets	25	45 minutes
2	Cash Budget	25	45 minutes
3	Flexible Budget	20	36 minutes
4	Capital Budgeting	30	54 minutes
		100	**180 minutes**

Question 1 (25 marks)

Precise Industries manufactures two products, Uno and Duo, which they sell to wholesalers. The following information is available:

	Uno	Duo
Expected sales	120 000 units	200 000 units
Selling price per unit	R30	R32
Direst labour	6 minutes	7.5 minutes
Direst labour rate	R30 per hour	R30 per hour
Material required for one unit:		
Ace	350 g	400 g
Base	200 mm	250 mm

Manufacturing overheads are as follows:

Fixed: R156 765 per month
Variable: R4 per direct labour hour

Inventory balances were as follows:

	1 June 2015	30 June 2015
Uno	2 000 units	4 000 units
Duo	4 000 units	5 000 units
Ace	5 700 kg @ R20 per kg	3 600 kg
Base	2 000 m @ R1.20 per m	1 200 m

<u>Required:</u>

Prepare each of the following budgets for Gauteng Industries for the month ended 30 June 2015:

1.1	The sales budget	(3 marks)
1.2	The production budget	(3 marks)
1.3	Direct material budget	(6 marks)
1.4	Direct labour budget	(5 marks)
1.5	Manufacturing overheads budget (per product, round off to nearest rand)	(3 marks)
1.6	Cost of goods sold budget (in total)	(5 marks)
		(25 marks)

Question 2 (25 marks)

The following information was extracted from the records of IKI (Pty) Ltd:

	October	November	December
	R	R	R
Sales (70% cash)	1 200 000	1 300 000	1 550 000
Purchases (40% cash)	600 000	640 000	700 000
Salaries and wages	250 000	250 000	500 000
Overhead expenses	190 000	180 000	200 000

Additional information:

1. The opening bank balance on 1 October 2015 is expected to be R45 000.
2. Credit sales are collected as follows:
   50% in the month following the month of sale;
   45% in the 2nd month following the month of sale.
   5% will prove to be bad.
3. Credit sales were R750 000 in August and R800 000 in September 2015.
4. Credit purchases are paid in the month following purchase.
5. Creditors for purchases at 1 October 2015 are:
   for September purchases R420 000.
6. Overhead expenses include a monthly depreciation charge of R27 000. Overhead expenses are paid in the month following the month in which they are incurred.
7. Creditors for overhead expenses at 1 October 2015 are:
   for September overheads: R155 000.
8. A provisional tax payment of R145 000 must be made at the end of December 2015.
9. A new delivery vehicle will be bought in October 2015 for R700 000. A deposit of R140 000 will be paid in October. Monthly instalments of R23 000 must be paid for 36 months from the end of October 2015.
10. A dividend of R65 000 from shares in another company will be received in October 2015.

Required:

Prepare a cash budget for October, November and December 2015.

(25 marks)

Question 3 (20 marks)

ShapeUp Company has had a comprehensive budgeting system in operation for several years. Feelings vary among the managers as to the value and benefit of the system. The line supervisors are very happy with the reports being prepared on their performance, but upper management often expresses dissatisfaction over the reports being prepared on various phases of the company's operations. A typical manufacturing overhead performance report for a recent period is shown below:

SHAPEUP COMPANY
Overhead Performance Report – Machining Department
For the Quarter Ended 31 December

	Actual	**Budget**	**Variance**	
Machine hours	50 000	60 000		
Variable overhead:	R	R	R	
Indirect labour	40 000	45 000	5 000	F
Supplies	10 800	12 000	1 200	F
Utilities	54 000	60 000	6 000	F
Rework time	28 000	30 000	2 000	F
Total variable costs	132 800	147 000	14 200	F
Fixed overhead:				
Maintenance	123 800	120 000	3 800	U
Inspection	180 000	180 000	-	
Total fixed costs	303 800	300 000	3 800	U
Total overhead costs	R436 600	R447 000	R10 400	F

After receiving a copy of this performance report, the supervisor of the Machining Department stated, "No one can complain about my department; our variances have been favourable for over a year now. We've saved the company thousands of rand through our excellent cost control."

The budget data above are for the original planned level of activity for the quarter.

Required:

3.1 The company's deputy CEO is uneasy about the performance reports being prepared and would like you to evaluate their usefulness to the company (3 marks)

3.2 What changes, if any, should be made in the overhead performance report to give better insight into how well the supervisor is controlling costs? (2 marks)

3.3 Prepare a new overhead performance report for the quarter, incorporating any changes you suggest in 3.2 above. (Include both the variable and the fixed costs in your report) (15 marks)

(20 marks)

Question 4 (30 marks)

You are the financial manager of CBC Manufacturing CC, a manufacturing business. CBC Manufacturing CC is considering replacing a manufacturing machine. CBC has a choice of specification for its new machine: Machine P will meet all the firm's basic requirements while Machine Q, although more costly to acquire, is considered to have greater profit-earning potential because of its greater sophistication.

Details are as follows:

	Machine P	***Machine Q***
Initial cost of machine	R1 000 000	R1 500 000
Useful life	4 years	4 years
Net cash inflow if bought:		
Year 1	R275 000	R400 000
Year 2	R375 000	R500 000
Year 3	R375 000	R375 000
Year 4	R425 000	R600 000
Resale value at the end of Year 4	R100 000	R200 000

CBC Manufacturing CC's existing machine was bought five years ago for R250 000 and will be scrapped irrespective of which new system is acquired. The firm's cost of capital is 15%.

Use the following discount factors:

Year 0: 1.000; Year 1: 0.870; Year 2: 0.756; Year 3: 0.658; Year 4: 0.572

Required:

4.1	Calculate the payback period of both Machine P and Q	(8 marks)
4.2	Determine the net present value of both machines	(15 marks)
4.3	Is Machine P financially preferable to Machine Q?	(2 marks)
4.4	List 4 advantages and 1 disadvantage of using the net present value method.	(5 marks)

(30 marks)

[100 marks]

END OF PAPER